



WHISTLE BLOWING: WHAT DO CONTEMPORARY ETHICAL THEORIES SAY?

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Abstract:

The rising number of scandals leading to the closure of many large companies is worrisome. The traditional belief is that business and ethics are oxymorons and one is not expected to be totally virtuous during business operations. Nonetheless, this does not mean ethical standards should be side-lined. Professional associations such as the Chartered Financial Institute (CFA) uphold moral values and urge members to exercise high moral standards and diligence in their duties. Philosophically, major accounting scandals could have been nipped in the bud by whistle blowing before the wrong deeds escalated. However whistle blowing is a major issue and is viewed as disloyalty. In this paper, the dilemmas of whistle blowing are evaluated using contemporary ethical theories which are: egoism, deontology and utilitarianism. The analysis shows that deontology and utilitarianism are based on altruism and may support whistle blowing because they are grounded on consideration of other people. It is worth noting that morally upright adults are often a result of being brought up as ethical children from a psychological standpoint.

Key words: *whistle blowing, business ethics, egoism, deontology, utilitarianism*

1. Introduction

Morality is a contentious issue. Generally, morality has been defined as “ethics” or ethical standards that we appreciate and value. There is no single definition of morality but it is understood to be doing what is acceptable or considered right in the eyes of the many. Morality differs from person to person and what I value such as honesty may not be the top ranking value in somebody’s life. Some people argue that what is moral is what you consider to be right. It does not matter what other people think. For example, if someone hits a pedestrian on the road with a car and runs away, it is acceptable in his own thinking to do that. It does not matter what we think- he did what he thought was right in that situation. People who follow this stream of thought tend to assume that beliefs are equivalent to morals.

According to Duska et al. (2011), beliefs do not necessarily constitute morality. The authors give an example of the Nazi beliefs about the Jews or people who uphold infanticide. These beliefs have no moral foundation. However, many people might argue that the driver is wrong to leave a wounded victim on the street. Some people choose to stay on the fence and refuse to take any side in ethical circumstances until they affect them directly. Nevertheless, such cases are not helpful. If a manager commits an unlawful act such as insider trading, and nobody takes a moral stand this will lead to a chaotic society. The ethical principles that we uphold today as individuals determine a lot how our lives and professions run. For example if I value honesty it is unlikely that I might commit adultery within the bounds of a marriage. It is likely that the same individual is doubtful to be untruthful in his professional life like accounting and engineering. Many organisations such as the CFA institute (Chartered Financial Analysts Institute) have clear set of rules that govern the ethical responsibilities of the certified profession.

It is now clear that today professions are not about just making profits but also doing the necessary moral obligations that come with that responsibility. The CFA institute for example stipulates that analysts and candidates *"must act with integrity, competence, diligence, respect, and ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession and other participants in the global capital markets"* (Reilly and Brown, 2009, pp.985). This code of ethics grooms the investment professional into an ethical human being in the field of investment. The reasonable assumption is that these morals are to be upheld every day during the course of one's professional life. However, many financial and accounting disgraces still occur such as dishonest soft dollars arrangement. According to Reilly and Brown (2009), soft dollar arrangement is when managers asks the investor to pay a brokerage commission that is higher than the simple cost of executing a security trade in exchange to offer the manager receiving additional bundle services from the broker. Blume (1993) argued that this scenario can cause misallocation of funds by potential investors. However, Horan and Johnsen (2000) revealed that the use of soft dollar arrangements can be used in ethics to monitor the general behaviour of the investment professional. The reason is when you engage in the soft dollar arrangement we can deduct that you are pursuing much self-interest. The use of soft dollars is not completely banned by the CFA institute. Instead the Institute has set appropriate guidelines on how to conduct the soft dollar arrangement without the managers pursuing their own self-interests. This is highlighted by the second code of ethics which says members should *"place the integrity of the investment profession and the interests of clients above their own personal interests"* (Reilly and Brown, 2009, pp.985). Another situation is when an investment professional attracts potential clients to invest in stocks he feels will be fruitful in the long run without informing the clients that past returns are not clear indications of the future returns and there are no guaranteed returns in the investment fields. The challenge is, if the professional discloses this information he will loose out in his commission. Clients are usually very

disappointed when they realise they are now making losses when they have been guaranteed profits from the start.

Calamities relating to ethics are not only witnessed in the investment profession. There have been many accounting scandals that led to the fall of big companies such as Enron in 2001 and WorldCom. In engineering too, I know a situation where a steel supplier sold weak steel to a client by giving false properties of the product. The wrong steel was used in the erection of a flat and a few months later the building collapsed and killed all the employees. I also know an incident where a doctor was supposed to carry out two surgeries in one day. But because he was selfish, he scheduled four appointments in one day instead of referring the additional patients to other medics. While working on the second patient, the third patient collapsed and died while the other patient screamed for immediate medical attention. These are ethical situations that cannot be overlooked. These situations bring us to whistle blowing. What if there was someone who reported these wrong activities before they were carried out? Whistle blowing is one of the most common ethical challenges everyone faces in their personal and working life. This paper contributes to the extant literature by examining whistle blowing success and failures; reasons for and against whistle blowing; the major determinants of whistle blowing success; the proper channels of whistle blowing and the multiple dimensions on whistle blowing. This study also contributes to the literature by using different contemporary ethical theories to resolve dilemmas pertaining to whistle blowing. Before we proceed with whistle blowing, we need to understand the root of ethics because that will clarify the different perspectives on whistle blowing.

2. Review of Ethics and Accounting Principles

Ethics is not clearly defined. According to Duska et al. (2011) ethics is: “the discipline dealing with what is good and bad with moral duty and obligation; a set of moral principles or values; a theory or system of moral values; or the principles of conduct governing an individual or group”. All the above definitions are acceptable. The traditional view of ethics is that an action is considered good if it is acceptable to a large number of people. The reasons for studying ethics according to Duska et al. (2011) are also diverse. The authors suggest that it is vital to review ethics so that we can be clear as to what beliefs are considered ethical. The authors note that by studying ethics, we can determine which set of principles apply in different circumstances. In addition, Duska et al. (2011) further notes that ethics is the basis of ethical reasoning and development. Without ethics, we have no basis of doing any activity that may be wrong or right. With ethics, one can justify the reasons for carrying out a particular task. In this way it will be much easier for judicial systems to operate. They will be criteria to judge actions. This does not mean that adversities do not occur today. They still do but with the legal system, the situation becomes much better.

The principles of ethics also are vital to understand why our feelings are and opinions are worth holding (Duska et al., 2011). The reason is if we carry out an action without a valid reason, then we are violating certain ethical principles. There are many reasons one can give for carrying out an activity. However some reasons are pointless for example performing a wrong act and saying "I just felt like it" provides no moral basis and therefore does not hold. The examination of ethics as reported by Duska et al. (2011) demonstrates to us how to identify the basic ethical principles that can be applied to an action. This is especially true in the professional world. In the introduction, the author gave an example of the case of a doctor who assigned himself four operations in one day. The other patients were left unattended and sadly somebody died. In this scenario, ethical principles are needed to resolve these cases. Was it right for the doctor to chew more than he can handle? Should action be taken against him for being selfish and costing peoples' lives indirectly? In businesses, such as accounting firms and audit firms it is important to be ethical. This is what ethicists call business ethics or sometimes accounting ethics. There are ethics in other professions too such as ethics in engineering; ethics in scientific studies and ethics in law firms. The traditional belief over the years is that business and ethics are oxymorons. That is to say that business and ethics are discordant because business is about making profits and for one to make profits he has to be unethical in some instances. There are many cases where a manager forged his balance sheets and income statements to secure a loan from a bank. There are other instances where well established companies intend to kill competition from new rivals. In these scenarios, the giant company will lower the prices so that the new corporation or business will be forced to reduce their prices. In the long run, the operating costs of the new business will escalate without profits. The new rival company will be forced to shut down. All this is done to make more profits. As to whether the action is ethical or not is not considered. New businesses today have ethical statements that deal with how employees should relate to one another and to the rest of the public, potential clients, clients and other institutions.

The American Institute of Certified Public Accounting (AICPA) has set ethical standards and what is expected from certified public accountants (CPA). The AICPA has seven principles which guide the CPA's. The first principle is "*in carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgement in all activities*" (Duska et al., 2011, pp.39). The key words in this principle are "*sensitive professional and moral judgments*". This principle forbids practices such as calculatingly entering a wrong accounting transaction; reducing liabilities to increase net profits; or overvaluation of assets to increase net profits; or in the case of audit firms- agreeing with a wrong accounting technique a client uses so that one can be paid more. The second principle of the AICPA states that members "*should accept the obligation to act in a way that will serve the public interest, honour the public trust and demonstrate commitment to professionalism*" (Duska et al., 2011, pp.39). This principle also supports the first one by including public interest. Untrustworthy accounting professionals are difficult to earn trust since they do not

serve public interest. The third principles states: *“to maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity”* (Duska et al., 2011, pp.39). The fourth principle states that: *“members should maintain objectivity and be free of conflicts of interests in discharging professional responsibility”* (Duska et al., 2011, pp.39). The last three of the AICPA principles are as follows (Duska et al., 2011, pp.39): (5) *a member should be independent in fact and appearance when providing auditing and either attestation services; (6) a member should observe the profession’s technical and ethical standards, strive continually to improve competence and the quality of services and discharges professional responsibility to the best of the members ability; (7) a member in public should observe the Principles of the Code of Professional Conduct determining the scope and nature of services to be provided.*

3. Whistle Blowing

This paper addresses whistle blowing using different ethical theories from the pioneers. Whistle blowing has been a debatable issue because it involves revealing or exposing unethical secrets that a company is involved. Duska et al. (2011) pp.146 defines whistle blowing as *“the practice in which employees who know that their company or colleague is engaged in activities that: cause unnecessary harm; violate human rights; are illegal; run counter to the defined purpose of the instructions or the professions; are otherwise immoral informs superiors, professional organizations, the public, or some government agency of these activities”*. Whistle blowing creates a dilemma for the concerned employee. Traditionally whistle blowing was considered bad because it involves exposing the other party to the eyes of the public or the concerned justice system. According to Duska et al. (2011) whistle blowing is often termed harshly with words such as “finking; tattling; ratting or stooling”. These words project our attitude towards whistle blowing. In most cases people prefer to walk away rather than to go through the quagmire of whistle blowing. Whistle blowing also involves a lot of responsibilities for the whistle blower. The informer is often in the centre of the investigations and will be asked to reveal the problematic areas. This is why it is sometimes hard for people to disclose unethical cases. Bad feelings and ill-will towards the whistle blower often results in these circumstances. Truthfully, most people believe they do not have the propensity to blow the whistle. They reason that whistle blowing is just not part of their daily duties.

Sharron Watkins felt she had the obligation to bring the unethical acts of Enron to light in 2001. Despite the fact that generally whistle blowing is considered bad, there are also benefits that may result from whistle blowing. Whistle blowing helps to put the needs of other concerned parties first. In situations such as projecting false profits to the public, whistle blowing can save investors from huge losses. It is just that whistle blowing does not directly help the whistle blower much per se. This is the primary reason why many people feel it's unnecessary to do it. Whistle blowing can have

serious repercussions to the informant. Even when shifting careers people often label you as the “rat” that will always be in a rush to reveal everything. It’s sometimes unbearable for those who whistle blow. In addition, whistle blowing often results in the collapse of large companies such as Enron. Many people will lose their jobs when the truth about the company is revealed. Most people will tend to blame the whistle blower for their loss of jobs. To them there is no heroism in demonstrated. People often run away with the idea that *“if it was not for your ratting, I will still be employed by now”*. They often overlook the fact that the company was making falsified profits. Next we evaluate how ethical theories can help solve ethical dilemmas in whistle blowing.

4. Contemporary Ethical Theories and Whistle Blowing

Whistle blowing can create ethical dilemmas. Some people may argue that it is a moral obligation to reveal unethical acts. But this creates a problem when you consider that the perpetrator may be left unemployed with a bad reputation or the company will close down. There are conflicting values. In this study, we evaluate whistle blowing in terms of their ethical theories which are egoism, deontology and utilitarianism.

4.1. Egoism

The traditional ethical theory is that individuals aim to pursue their own welfares. Duska et al. (2011) argue that individuals always act in their own self-interest. This theory has been rejected often because it promotes selfishness. Many people believe that being selfish is wrong because you are not considerate of other people’s wants and needs. The only thing that you really care about in this theory is you and your goals. Nothing that does not help you or act in line with your interests is important to you. According to Duska et al. (2011), recent mind-set research has shown that self interest and concern for the self is not entirely bad. Psychologists argued that self-love and self-esteem and an individual’s vigorous pursuit of his or her own projects and goals are quite necessary. Egoism is not entirely bad but it is worse when you start pushing you goals at the grief of another. It is therefore universally rejected as an ethical theory. However, egoists contend that if one does not look out for the self, who will? They argue that one cannot be affirmative whether someone will act in their interest or not so it is better to act in their own self interests. In psychology, it is often argued that everyone is an egoist because all people tend to act in their own interests (psychological egoism). Professionally, is egoism bad?

Egoism is noted to be a bad theory because it does not involve the interests of other parties. For example a conceited auditor will not act the interest of his clients. The most important question is, does this theory solve the problems involved in whistle blowing ethical dilemmas? Egoism is based on the fundamentals of self-interest. Therefore in egoism, one may argue that it may not be necessary to reveal the

unethical acts a company or colleague does because it does not advance them in any way. There are really no benefits to whistle blowing in most cases. The egoist is concerned about his own personal interests. However, an egoist may also postulate that it will be viable to go ahead with whistle blowing if it advances his career for example, if she gets a top position in the company after the calamity has been solved. Therefore in egoism the concern is *“what can I get from whistle blowing?”* Generally whistles blowing should be done in honour of the profession and not for the purpose of self-advancement. It will therefore violate for example the regulations postulated by formidable associations such as the CFA institute and the AICPA. The concern is that the egoist is also likely to keep quiet even when things are clearly unethical because it does not benefit him in anyway. Duska et al. (2011) states that even though professionals may not concur, there are times when they will be obliged to expose unethical secrets.

4.2. *Utilitarianism*

In utilitarianism, the theme is to do an action which will benefit the greatest good for the greatest number of people (Duska et al., 2011). The pioneer Stuart John Stuart Mill advocates that an action that brings about more good consequences is viable while an action that brings about bad consequences is harmful. The rule is an action that creates more happiness is viable. The problem with this theory is that it does not factor well the distribution problem. Duska et al. (2011) give an example of oranges. If there are five people and two like oranges prominently while the other two loathe them, how should the oranges be distributed to create the greatest happiness? If we allow the oranges to be distributed fairly, such that one orange is given to each individual the total units of happiness will be three. This is because the other two individuals will not be pleased with receiving oranges. However if we allow the oranges to be given to people who really love them such that the two who love oranges receive two oranges each, we will create the greatest number of happiness units. In terms of whistle blowing, is utilitarianism a viable ethical theory? Whistle blowing may be supported by utilitarianism if it will benefit a significant number of people. Therefore, if it will cause adversities to a great number of people such as soaring unemployment then it will be wise not to go ahead with such an act.

4.3. *Deontology*

The other ethical theory we need to address is the Immanuel Kant's Deontology. Deontology is based on the belief that if one acts to fulfil his desires then they are not acting out of a moral motive. Immanuel Kant presents several formulas for the categorical imperatives. The first formula is that one should *“act so that you can will the maxim of your action to become universal law”*. The second formula is to *“act so as to never be to treat another rational being merely as a means”*. Kant's theory is directly the opposite of egoism. This is because in egoism the person one is concerned about

is themselves. Their actions do not have to be universalised. However deontology argues that one should consider their actions first and determine if they can be taken to be universal law or principle. This theory solves the problems in utilitarianism.

Utilitarianism is only concerned with the outcome while deontology is based on universalising ones actions. The reason is one cannot expect his behaviour to be globally accepted if it is wrong to start off with. This dictates people to act ethically so that their actions can be universally accepted. The most important task is to evaluate if deontology solves the dilemmas in whistle blowing. If an accountant proceeds with whistle blowing and reveals all the unethical acts, in deontology, it will be right to do so. One can postulate that his ideas or actions may be universally accepted as he saw unethical acts and reported them. Most individuals may argue against deontology because it pushes egoism far away. The concern is not only about the professional, but the global community as a whole. However, whistle blowers do not always walk away scott-free without any challenges. Ross (1930) believes that we have certain purposes that go beyond the specific duties. For instance we have the obligation to keep promises, to do well and not harm others.

Factoring Psychology

In business ethics there are other factors that ethicists overlook that can affect the occurrence of scandals. King (2008) states *“moral development involves changes in thoughts, feelings, and behaviours regarding the principles and values that guide what people should do”* (p.128). Studies in psychology have shown that moral development has both intrapersonal and interpersonal dimensions following Lapsley and Narvaez (2006) and Turiel (2006). When considering ethics, it is important to note however that morally upright children often grow to be respectful and upright adults (Eisenberg, et al., 2006). Even though Kohlberg argues that parents do not have a major impact on children’s moral thinking (Kohlberg, 1969) recent studies have shown that there are strategies that can help to develop a morally upright child following (Eisenberg et al. 2006; Eisenberg and Murphy, 1995 and Eisenberg and Valiente, 2002). According to King (2008) these strategies include being warm and supportive and modelling moral behaviours and thinking. If these strategies are followed well many professional individual will act honourably not because of an obligation to the profession but because of their nature and upbringing. Many scandals will cease.

5. Discussion and Conclusion

In this study whistle blowing was evaluated using contemporary ethical theories. The dilemmas of whistle blowing have been examined using the fundamentals of egoism; utilitarianism and deontology. Whistle blowing has generally been considered an unethical act because it means one has to be disloyal. Human beings are social and if one is disloyal and reveal unethical acts they tend to be isolated and given names. Generally egoism fundamentals do not support whistle

blowing because it is based on ones' self-interests. Under egoism, one should only go ahead with whistle blowing if it will profit them. However, that is not in line with professional ethical standards. Professional ethical standards engage an individual to be selfless and an act out of sincerity and moral obligation. On the other hand utilitarianism is founded on the principle that an action is viable if it provides the greatest benefit to the greatest number of people. Whistle blowing in this case is supported only if it will bring more good than harm to the concerned parties. A utilitarian will have to weigh the consequences first and determine which one will bring about more good than bad.

The problem with this theory is that the informer has to be selfless unlike egoism. Egoists reject utilitarianism because one person's interests are not a priority. However, in consideration of deontology, whistle blowing becomes less complicated. The pioneers indicate that one should act in a way that his actions could be globally accepted. Whistle blowing may be accepted in this case because it is what people may consider to be right. Overall the two theories that support whistle blowing are deontology and utilitarianism. However that does not mean whistle blowing should be carried out anytime without careful consideration of the situation. Situations differ and their sternness also affects our reasoning and the way we act. According to Duska et al. (2011) whistle blowing should be based on the proper motivation; proper evidence; proper analysis and the proper channels. The proper motivation clearly does not cover statements like "to advance my career". That will be egoistic. From a psychological perspective, many illegal acts can be prevented by good parenting. Studies have shown that raising children well and modelling moral behaviours are very assistive in raising a moral child who will grow up as a decent adult. In conclusion, deontology and utilitarianism seem to be the answer in tackling dilemmas in whistle blowing.

6. References

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